

TAX DISPATCH

Volume 9, Number 2

2006 Individual Income Tax Highlights

2006

Indiana

IT-40 Full-Year Resident
Individual Income Tax Booklet



New addresses for mailing the individual IT-40, IT-40EZ and IT-40PNR tax returns:

If enclosing a payment, mail the tax return with all attachments to:

**Indiana Department of Revenue
P.O. Box 7224
Indianapolis, IN 46207-7224**

For all other filings, mail the tax return with all attachments to:

**Indiana Department of Revenue
P.O. Box 40
Indianapolis, IN 46206-0040**

Posey County Adopts County Income Tax:

Posey County has adopted a county income tax. The resident rate is .001. The nonresident rate is .00025.

Homeowner's Property Tax Deduction Catch-up:

A catch-up deduction is available for taxpayers who paid property tax in 2005 for the 2002 (payable in 2003) and/

or 2003 (payable in 2004) assessment periods. The catch-up deduction applies only if the payments were late due to delays caused by the statewide property tax reassessment.

Individual Taxpayer Identification Number (ITIN):

Check-boxes are provided on the IT-40, IT-40EZ and IT-40PNR returns for individuals who are in the process of applying for an ITIN.

Partnership and S Corporation Disclosure Requirement:

Full-year filers must complete the new schedules 3 and 3A if they reported K-1 information on their federal Form 1040.

Part-year or full-year nonresident filers must complete schedules F and F1 if they received Indiana IN K-1s.

Coal Gasification Technology Investment Credit:

A credit is available for qualified investments in a coal gasification power plant.

Economic Development for a Growing Economy (EDGE) Credit:

A line has been added to the IT-40 and IT-40PNR returns for individuals to claim this pass-through credit.

Enterprise Zones Update:

The Indiana Army Ammo enterprise zone has been renamed River Ridge Development. The Gary and Terre Haute zones have expired.

Headquarters Relocation Credit:

A business with annual worldwide revenue of \$100 million that relocates its corporate headquarters to Indiana may be eligible for a credit.

2006 Corporate Income Tax Highlights

New Modifications to Add Back Deduction for Adjusted Gross Income:

- Provides for the add back of intangible expenses and any directly related intangible interest expenses paid, accrued or incurred with one or more members of the same affiliated group or with one or more foreign corporations. An affiliated group has the meaning set forth in Section 1504 of the Internal Revenue Code, except that the ownership percentage is determined by using 50 percent instead of 80 percent.
- Provisions apply to taxable years beginning after June 30, 2006. It is applicable to all filers starting in 2007.

Reduced Tax Rate on Income from Qualified Military Base Enhancement Area:

- Provides a corporate adjusted gross income tax rate of 5 percent instead of 8.5 percent for businesses that locate new operations in a completely or partially inactive, closed military base or qualified military base enhancement area.
- For a business that locates all or part of its operations in a qualified base enhancement area, the business must satisfy at least one of the following three criteria: The business is a participating business in the technology transfer program conducted by the qualified military base, the business is a United States Department of Defense contractor, or the business and the qualified military base have a mutually beneficial relationship.

Changes to Tax Liability Credits Biodiesel and Ethanol Tax Credits:

- Credits are available for taxpayers who produce biodiesel and/or blended biodiesel at an Indiana facility, and for dealers who operate service stations that sell blended biodiesel at retail.
- Pass-through entities are eligible for this credit.
- An approved Form BD-100 must be attached to verify the claimed credit.

New - Coal Gasification Technology Investment Tax Credit:

- Effective Jan. 1, 2006, the credit is 10 percent of the taxpayer's qualified investment for the first \$500 million invested and 5 percent for the amount that exceeds \$500 million in an integrated coal gasification power plant.
- The credit must be taken in 10 equal installments beginning with the year that the facility is placed in service and is limited up to 25 percent of the adjusted gross income tax or utility receipts tax liability.

New - Headquarters Relocation Tax Credit:

- A business with annual worldwide revenue of \$100 million that relocates its corporate headquarters to Indiana may be eligible for a credit.

Hoosier Business Investment Tax Credit:

- The Hoosier Business Investment credit has been extended until Dec. 31, 2011.

Hoosier Business Investment Credit:

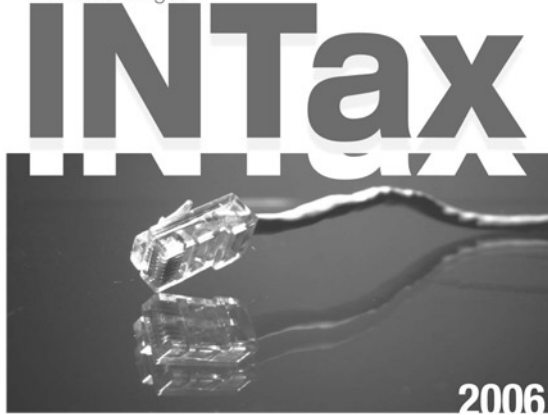
The Hoosier Business Investment credit has been extended until Dec. 31, 2011.

GET YOUR STATE TAX NEWS FASTER

If you would like to receive an e-mail notification when each new issue of the Indiana Tax Dispatch is posted to the Department's Web site, please send an e-mail to Shannon Sutterfield.

INDIANA
IT-20 Corporate
Income Tax Booklet Year 2006 & Fiscal Years Ending in 2007

www.intax.in.gov



Indiana Research Expense Tax Credit:

- Indiana has a research expense credit that is very similar to the federal credit for research and experimental expenses paid in carrying on trade or business in Indiana.

- S corporations and partnerships may take this credit and pass through the unused portion to their shareholders and partners.

- Get Form IT-20 REC at www.in.gov/dor/taxforms/05pdfs/05-it20rec.pdf

This form must be completed and a copy attached to claim this credit.

Military Base Investment Cost Tax Credit:

- This credit is available for certain taxpayers who provide an income tax credit for a qualified investment in a business located in a military base, a military base reuse area, an economic development area or a military base recovery site.

- The amount of the credit depends on the type of business,

the number of jobs created and the amount of the investment.

- The maximum amount of the credit may not exceed 30 percent of the investment.

EDGE for Retention Tax Credit:

- Effective April 1, 2006, an employer must have at least 35 employees to qualify for the EDGE for retention tax credit. Formerly, the job retention criteria effective since July 1, 2005, required that the applicant employ at least 75 employees.

- The total amount of EDGE credits awarded in a year for projects to retain existing jobs in Indiana cannot exceed \$10 million.

Termination of Three Enterprise Zones:

The following enterprise zones have been terminated:

- Gary (Sept. 8, 2005)
- Portage (Dec. 31, 2005)
- Terre Haute (Dec. 31, 2005)

The Indiana Army Ammo EZ changed its name to River Ridge Development.

Other Changes to Adjusted Gross Income Tax Starting in 2007

Phase-in of Single Factor Sales Formula for Apportionment of Income:

- Transition to a single factor formula based on sales for apportioning business income of corporations and nonresident persons for taxable years starting in 2007.
- The total value of the property and payroll factors shall gradually be diminished in each of the succeeding three taxable years.
- The definition of the sales factor is changed, effective Jan. 1, 2007. It is clarified to provide that regardless of the freight on board (f.o.b.) point or other conditions of the sale, sales of tangible personal property are in this state if the property is delivered or shipped to a purchaser that is within Indiana.

Petition to Discontinue Filing Combined Return:

- A taxpayer filing a combined income tax return must petition the Department within 30 days after the end of the taxpayer's taxable year to discontinue filing a combined income tax return, effective Jan. 1, 2007.

Interest on Refunds Accrues from the Filing Date of the Claim:

- The Department will pay accrued interest on an excess tax payment on a claim for refund or an amended return if the Department does not issue the refund within 90 days of the date that the refund claim is filed.

Credit for Assessments Paid to Indiana Comprehensive Health Insurance Association:

- Starting in 2007, an insurance company may claim a credit against its tax liabilities for 10 percent of the assessment(s) paid by a member to the Indiana Comprehensive Health Insurance Association.
- If the maximum amount of credit exceeds the tax liability for the year, the unused portion of the credit year may carry forward.

New State Tax Law Goes into Effect Jan. 1, 2007

Indiana's getting tough on businesses that are delinquent in paying their sales taxes. Those delinquent on their sales tax could find themselves out of business after Jan. 1, 2007.

The 2006 General Assembly passed Senate Enrolled Act 362 which requires all businesses to renew their retail merchant certificates biennially. Those businesses found to be delinquent in paying their sales taxes will be denied a renewal, and if they continue to operate without a valid retail merchant certificate, the company's responsible officers could face a class B misdemeanor, which is punishable by imprisonment, fines or both.

"Prior to SEA 362, a business only had to register for a retail merchant certificate one time and it was good for life," said Department of Revenue Commissioner John Eckart. "Now businesses will need to renew their certificates every two years."

Reduced time to protest tax assessments

SEA 362 also reduces the length of time individual and business taxpayers have to protest a tax bill and file a suit in tax court. Taxpayers will now have 45 days compared to the previous 60 days to protest a tax bill. SEA 362 also reduces the length of time to file a suit in court from 180 to 60 days. Another component of SEA 362 will allow the Department of Revenue to place a levy on any unclaimed property to which a taxpayer may be entitled.

"First and foremost, the best time to collect taxes is when they are due," said Senator David Ford, who authored the bill. "With this legislation, the Department of Revenue will have more tools to encourage taxpayers to pay on a timely basis and effectively streamline the collection process."

For more information about SEA 362, visit the Department's Web site at <http://www.in.gov/dor/reference/sea362/index.html>

Electronic Filing Use Rising

Electronic filing continues to increase, and that's good news for the State of Indiana and its



citizens. During the 2005 filing season, 100,000 more taxpayers filed their individual income tax returns using e-File compared to 2004's filing season. "On average, the number [of electronic returns]

**FORM DESIGN
SUGGESTIONS**

Do you think you could design a better tax form or booklet? Please send your individual tax suggestions to **Diane Blankenship** and corporate tax suggestions to **John Sundt**.

grows about 100,000 more each year,” said Linda Dollens, director of returns processing.

According to Dollens, the cost of processing electronic returns is less expensive than processing paper returns. The breakdown of filing costs is as follows:

- Electronic: \$0.02 to \$0.03 per return
- 2-D Bar Code: \$0.34 to \$0.36 per return
- Paper: \$1.00 per return

The number of taxpayers that used I-File during the 2005 filing season also increased. I-File is Indiana’s fast, friendly and free online service to file state taxes. During the 2005 filing season, more than 13,500 taxpayers filed their IT-40 return using I-File, compared to 2004’s filing season.

The Department also is making improvements to I-File for the upcoming 2006 tax season. “The changes in I-File should make it easier to navigate, easier to log in and provide better help links,” said **Karen Barthelmes**, quality assurance manager. “The idea is to make it more user friendly.”

Besides the convenience of the free online service, I-File is also the *only* electronic-filing method that allows taxpayers and tax practitioners to file the IT-40PNR and IT-40RNR.

Department Stepping Up Collection Efforts

The Department of Revenue has begun to aggressively pursue delinquent taxes, now that Indiana Tax Amnesty has been officially closed. In addition, the 2006 General Assembly passed Senate Enrolled Act (SEA) 362, which lays the ground work for the Department to improve collection efforts today and in the future.

Shortly after June 15, the Department began aggressively pursuing more than 850,000 severely delinquent tax bills, totaling more than \$1 billion in unpaid taxes, penalty and interest. The Department has partnered with three collection agencies to collect from in-state and out-of-state delinquent taxpayers that did not participate in Indiana Tax Amnesty, and from those that defaulted on their amnesty payment plans.

“I describe these efforts as aggressive, because we are using all legal means of collection, including wage garnishment, seizure of property and levying bank accounts,” said Commissioner John Eckart. “Each collection agency is making multiple contacts with taxpayers in attempts to collect prior to implementing firm legal action. However, once all contact efforts have been exhausted, they are moving to take firm legal action immediately.”

To date, the three collection agencies have collected more than \$5.6 million.

Trust Tax Collection Efforts

The Department also has launched a mass billing campaign to collect on unpaid sales taxes. The Department sent bills to more than 73,000 businesses throughout Indiana on Sept. 7 for tax periods ranging from July 1, 2004, to May 31, 2006. To date, more than \$21 million has been collected from this effort.

These sales-tax collection efforts will coincide with new legislation that goes into effect Jan. 1, 2007. SEA 362 will require businesses to renew their Retail Merchant Certificate (RMC) every two years. Those that businesses which are due for renewal but are delinquent in their sales-tax payments, will be denied renewal until the tax debt is paid.

“To renew the RMC, the business must be current on all sales tax payments or have a payment plan in place,” said Eckart. “The Department must provide those delinquent businesses with at least a 60-day notice prior to the expiration of their RMC. Our current sales-tax collection effort will enable the Department to fulfill that requirement.”

Those businesses that continue to operate after their RMC has been revoked, face criminal charges.

In addition, bills for delinquent withholding taxes were mailed out on Oct. 23. Delinquent withholding tax bills were issued for tax periods from July 2004 through July 2006. To date, more than 6,000 taxpayers have called to resolve their outstanding withholding tax debts.

INtax Popularity Continues to Grow

INtax continues to be a successful resource for users in its sophomore year of service. INtax provide a one-stop, self-service resource for all tax-related services between the Department and the state's business taxpayers.

"Since INtax went live in January 2005, more than 22,000 users have registered with INtax," said Andrew Leohr, Accenture consultant. "INtax continues to grow. On average, 1,000 new users register each month."

INtax recently added online-coupon ordering to its list of services. Users can order all trust-tax coupons from the INtax Web site.

"Having the coupons available on our Web site helps us save manpower, allowing us to stretch our taxpayer's hard-earned dollars even farther," said Deputy Commissioner Jim Poe. "Taxpayers can now be redirected to our Web site to order coupons in the future. The response time also will be quicker for those taxpayers needing coupons."

The Department anticipates incorporating the remainder of the trust-tax types in 2007. "Food and beverage, county inn-keepers and motor vehicle rentals are the remaining trust-tax types that need to be rolled into INtax," said Leohr.

To learn more about INtax, or to get started as a user today, visit www.intax.in.gov

The Department has updated the following Commissioner's Directives, Departmental Notices and Information Bulletins since the April 2006 issue of the *Tax Dispatch*:

Commissioner's Directives:

Amnesty Provisions for Sellers Registering to Collect Indiana Sales Tax under the Streamlined Sales Tax Program

Fireworks Public Safety Fee

Utility Services Use Tax

Changes in the Collection Process and Protest of Tax Liabilities

Departmental Notices

How to Compute Withholding for State and County Income Tax

Prepayment of Sales Tax on Gasoline

Form Specifications for Software Developers

Interest Rates for Calendar Year 2007

Information Bulletins

Income Tax

Biodiesel Tax Credits

Ethanol Production Tax Credit

Hoosier Business Investment Tax Credit

Headquarters Relocation Tax Credit

College Choice 529 Education Savings Plan

Interest Rates on Assessments of Delinquent Taxes and Refunds for Overpayment of Taxes for Listed Taxes under IC 6-8.1-1-1
Application of Tax Credits Available to Taxpayers

Sales Tax

Casual Sales, Auctions, Garage Sales, Rummage Sales and Similar Sales
Construction Contractors Tax Responsibility
Ethanol Fuel Sales Tax Deduction
Sales Tax Exemption for Recreational Vehicles and Cargo Trailers
Application of Indiana Sales Tax to Sales of Gasoline and Special Fuels Sold Through

Indiana Department of Revenue Contact Information

Telephone Assistance



- Individual Income Tax Information: 317-232-2240
- Sales Tax Information: 317-233-4015
- Withholding Tax Information: 317-233-4016
- Corporate Tax Information: 317-615-2662
- Practitioner's Hotline: 317-233-4017
- Collection/Liability Inquiries: 317-232-2165
- Tax Forms Order Line: 317-615-2581
- Motor Carrier Services: 317-615-7200
- Telephone Device for the Deaf: 317-232-4952

Refund Status

- Automated Information Line: 317-233-4018
- Web site: <http://www.in.gov/dor/>

INDIANA
DEPARTMENT OF REVENUE
100 N. Senate Ave
Indianapolis, IN 46204